

# CASH FLOW THEORY AND ENTITY'S PAYMENTS

**Valentyna Kostyuchenko, Kyiv National University of Trade and Economics**  
**Lyudmyla Chyzhevska, Zhytomyr Polytechnic State University**  
**Anna Hevchuk, Vinnytsia financial and economic university**  
**Olena Hryhorevska, Kyiv National University of Technology and Design**

## ABSTRACT

*The study determines the influence of the components of the cash flow theory – the concept of cost-oriented management and discounting of cash flow – on the formation of information about the entity's payment transactions. This will allow to approach comprehensively to the development of accounting and analytical as well as control support of entity's payment transactions and will ensure the formation of the analytical component of payment transactions.*

**Keywords:** Payment Transactions, Monetary Theory, Cash Flow Theory, The Concept of Cost-Oriented Management, The Concept of Cash Flow Discounting.

**JEL Classification:** A12, M41, P16.

## INTRODUCTION

Most business transactions are associated with cash flow (i.e. distributed in time payments (outflows) in favor of creditors and receipts (inflows) from debtors), which is realized through cash receipts, income (revenue), accrual of costs, calculation of financial results, settlements in the form of payments, etc. However, despite the availability of sources devoted to the concept of cash flow, domestic theorists do not pay due attention to this issue. Which, in turn, prevents the formation of a unified approach to payments as a component of cash flow, the system of indicators that characterize their fulfilment, prevent the study of factors influencing them.

## METHODOLOGY AND DATA

Cash flows characterize all the processes of the entity, which is the conclusion in the works of (Atrill, et al. 2017; Pankov & Makhanko 2015). Theoretical understanding of these issues raises the question of creating a comprehensive accounting and analytical model that allows to reproduce and correctly interpret information about cash flows at all stages of the cycle or at all cycles of the main business processes of the business entity.

An ontological study of the theoretical origins of cash flow and its impact on the further evolution of financial and economic thought allows us to formulate a sequence of interconnected and interdependent theories and concepts.

Thus, in the middle of the 20<sup>th</sup> century. cash flow theory has become central to financial management and in its approach has been divided into the concept of cash flow and the concept of time value of cash flows.

The development of basic concepts of financial management has generated the emergence of the concept of cost-oriented management (authors – Nobel Laureates, economists Manticioni (Italy) and Miller (USA)), in which cash flow and transparency of cash flows and financial results are considered to be the most important source of corporate value generating.

## RESULTS AND DISCUSSION

The emergence of the ideology of value management was a consequence of the strengthening of strategic emphasis in internal management, in light of which the priority was not profit but the sources of value generation. The increase in value determines the possibility of expanded reproduction, increases the potential of the business, increases competitiveness, increases market share, increases the status of the company. In addition to the arithmetic growth of factors of production, in this case there is a synergistic effect, or effect of scale, as a result of which due to relative savings on conditional fixed costs an additional profit occurs (Khotinskaya & Slashchev 2008).

Further strengthening of strategic emphasis in management, the development of the application of International Financial Reporting Standards, the emergence of new financial instruments led to the further development of the Concept of time value of money, which in the late 20<sup>th</sup> century transformed into the Concept of Discounted Cash Flow (DCF). The modern sources state that modern monetarism is a form of neoliberalism in the USA, also called American neoconservatism. It is based on the idea of money supply as a determining factor of economic conjuncture, the level of prices, the amount of national income, employment and macroeconomic balance in general (Buus, 2015).

Cyclical and holistic characteristics of payments (as one of the elements of cash flow) and relations with their participation occurs within the development of cash flow theory and the concept of cash flow discounting and cost-oriented management, in particular, which can be schematically presented in Table 1.

| <b>Cash flow discounting concept</b>   | <b>Plane of the study</b>  | <b>The concept of cost-oriented management</b>   |
|--|--|--|
| Justification of the depreciation of the value of payment relations due to inflation   | Uncertainty and risks, specific features of payments and their types, assessment of the payment relations fulfilment, reflection of the payment relations results in accounting and reporting, control | Assessment of cash flows, their transparency and financial results   |
| Determination and assessment of the probable risk of non-receipt of expected amounts in the payment relations. Risk assessment of the implementation of payment relations in part or in full |  | Distribution of indicators that characterize the balance and efficiency of cash flows                      |
| Debt turnover analysis and assessment of liquidity and solvency  |  | Distribution of cash flows by type of activity, by composition, by structure, by income and by expenditure |

The use of these approaches to payment transactions allows to influence the formation of information about the assessment and status of payments at the macro and micro levels. Taking into account the theory of cash flow at the micro level allows to provide interdisciplinary links between the branches of Economics and comprehensively implement the principles of monetary

policy. In turn, compliance with interdisciplinary links ensures the unity of methodological support of management functions, including planning, control, accounting. Describing the theoretical foundations of the monetary component of the study of payment relations shown in the figure, we note that the subject area in it can be revealed through the development of accounting and analytical support. Because it is accounting that forms the information basis for the application of analytical procedures and formulation of conclusions based on the results of the analysis.

## CONCLUSION

The given subject area of the researched problem question will allow to develop further the basic methodical device for practical realization of the described theoretical directions in accounting system and to form a methodical approach of accounting and analytical support of payment transactions following from the monetary theory providing polyvariance, expanding field of application and methodological tools of accounting as a science.

## REFERENCES

- Atrill, P., & McLaney, E.J. (2006). *Accounting and Finance for Non-specialists*. Pearson Education.
- Buus, T. (2015). A general free cash flow theory of capital structure. *Journal of Business Economics and Management*, 16(3), 675-695.
- Khotinskaya G.I., Slashchev I.Y. (2008). Cash flow: essence, concepts, typologies. *Bulletin of the Association of Universities of Tourism and Service*. №2. 2008 from: <https://cyberleninka.ru/article/n/denezhnyy-potok-suschnost-kontseptsii-tipologii>
- Pankov, D.A., & Makhanko, L.S. (2015). Monetary theory of accounting in the system of theoretical accounting models and directions. *Practical Science Edition "Independent Auditor"*, 4(14).